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NO. LTC # 012-2012

LETTER TO COMMISSION

TO: Mayor Matti Herrera Bower and Members of the City Commission

FROM: Jorge M. Gonzalez, City Manager

DATE: January 13, 2012

SUBJECT: *Wall Street Journal* – Convention Center Editorial

This Letter to Commission is intended to provide you with a copy of the Editorial regarding the convention industry referenced at the January 11, 2012 City Commission meeting. I have also provided you with a letter from the President and CEO of the Center for Exhibition Industry Research, as well as an article from *Convention South* a convention industry magazine.

Please let me know if you have any questions.

JMG/HMF/MAS

C: Hilda Fernandez, Assistant City Manager
Max Sklar, Tourism and Cultural Development Director

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CITY CLERK'S OFFICE

Have We Got a Convention Center to Sell You!

From Boston to Austin, politicians spend money on fancy white elephants.

By STEVEN MALANGA

For two decades, America's convention center business has been declining, resulting in a nationwide surplus of empty meeting facilities, struggling convention halls and vacant hotel rooms. How have governments responded to this glut? By building more convention centers, of course, financed by debt backed by new taxes and fees on already struggling taxpayers.

Back in 2007, before the recession began, a report from Destination Marketing Association International described America's convention industry as a "buyer's market" suffering excess capacity. It's only gotten worse, attracting just 86 million attendees in 2010, compared to 126 million in 2000. Meanwhile, the amount of convention space angling for business has increased to 70 million square feet, up from 53 million in 2000 and 40 million two decades ago.

That's largely because governments refuse to stop making convention centers bigger and hotels even more dazzling, arguing that whatever business remains will flow to the places with the fanciest amenities. To finance these risky projects—which the private sector won't build by itself—cities float debt backed by new taxes and fees on already struggling taxpayers. As Charles Chieppo, a former board member of Massachusetts Convention Center Authority, lamented last year, "Logic rarely has a place in the convention business."

Take Illinois, an industry leader,where officials have invested heavily to keep Chicago's McCormick Place, long one of the three most-used centers in the nation, on top. They spent $1 billion in the early 1990s to build a 840,000-square foot expansion financed by fees on auto rentals, a hotel tax and a surcharge on restaurant meals in downtown Chicago. In 2007 they opened a new building, McCormick West, at a cost of an additional $900 million. The result? According to the Chicago Tribune, the center operates at 55% capacity.

Then there's Boston, perhaps the quintessential example of a city that interprets failure in the convention business as a license to spend more on it. Massachusetts officials shelled out $230 million to renovate Hynes Convention Center in the late 1980s. When the makeover produced virtually no economic bounce, officials decided that the city needed a new, $800 million center financed by a hotel occupancy excise tax, a rental-car surcharge, and the sale of taxi medallions. Opened in 2004, that new Boston Convention and Exhibition Center was projected (by consultants hired by the state) to have Boston renting some 670,000 additional hotel rooms annually within five years. Instead, Beantown saw just 310,000 additional hotel room rentals in 2009.

Associated Press

Chicago political and labor leaders, including Mayor Rahm Emanuel (arms crossed), appear at the expanded McCormick Place convention center in October.

Now Massachusetts officials want to spend $2 billion to double the size of the Boston Convention Center and add a hotel. Of course, they predict that the expanded facilities would bring an additional $222 million into the local economy each year, including 140,000 hotel room rentals. Even with these bullish projections, officials claim that the hotel would need $200 million in public subsidies.

"The whole thing is a racket," Boston Globe columnist Jeff Jacoby recently observed. "Once again the politicos will expand their empire. Once again crony capitalism will enrich a handful of wired business operators. And once again Joe and Jane Taxpayer will pay through the nose. How many times must we see this movie before we finally shut it off?"

Many times, if officials in Baltimore have their way. Several years ago they built a $300 million city-owned hotel, (the Hilton Baltimore Convention Center Hotel) to boost the fortunes of the city's struggling convention center. Having opened in 2008, the hotel lost $11 million last year. Now the city is considering a public-private expansion plan that would add a downtown arena, an additional convention hotel, and 400,000 feet of new convention space at the cost of $400 million in public money.

The list goes on—everywhere from Columbus, Ohio, to Dallas, Austin, Phoenix and places in between. One problem is that optimistic projections about new facilities fail to account for how other cities are expanding, too. Why did Minneapolis struggle to hit projected targets after it enlarged its convention center in 2002? "Other cities expanded right along with us," Minneapolis's convention center director, Jeff Johnson, said this year.

The surest sign that taxpayers should be leery of such public investments is that officials have changed their sales pitch. Convention and meeting centers shouldn't be judged, they now say, by how many hotel rooms, restaurants, and local attractions they help fill. That's "narrow-minded thinking," said James Rooney of the Massachusetts Convention Center Authority this year. Instead, as Boston Mayor Thomas Menino has said, expanding a convention center can "demonstrate to the world that we have unlimited confidence in our city and what it can do, not only as a convention destination but as the center of the most important trends in hospitality, science, health and education."

This new metric—a city's amorphous brand value—is little more than a convenient way to ignore the failure of publicly sponsored facilities to live up to exaggerated projections. But as far as city officials are concerned, that failure is nothing that hundreds of millions more in taxpayer dollars can't fix.

Mr. Malanga is a senior editor at City Journal. A longer version of this article appears in City Journal's Winter 2012 issue.

ceir
Center for Exhibition Industry Research

4 January 2012

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Gentlemen:

The 31 December issue of *The Wall Street Journal* reprinted a portion of an article about convention centers originally published by Steven Malanga in the *City Journal Winter 2012 issue.* The opening statement in the article that claims convention business has been in decline for two decades is incorrect.

The benchmark data for the convention and exhibition industry was published in a paper written by Bob Black and delivered in a lecture at Cornell University 19 November 1986. That paper identified 2,733 business-to-business exhibitions held in 1986 with 41.4 million attendees.

A second benchmark study of the exhibition industry was published by the Center for Exhibition Industry Research (CEIR) in 2001. The CEIR Industry Census identified 7,933 business-to-business exhibitions held in 2000 with 59.6 million attendees. Clearly an increase of 190 percent indicates significant growth in the 1990's.

The CEIR Census was updated as scheduled in 2010. That edition identified 8,962 business-to-business exhibitions with 61 million attendees. Despite the economic declines in 2001-2002 and again in 2008-2010, the exhibition industry recorded continued growth in the number of events during these periods.

Since the first, purpose-built convention centers opened in the 1960's following the completion of the interstate highway system and the commercial introduction of the jet airplane, the exhibition industry has thrived and shown resistance to decline during economic downturns and resilience in recovery following a downturn.

Perhaps next week while you are covering the largest annual convention and exhibition held in the U.S., the Consumer Electronics Show, you can find an opportunity to correct the record on the industry performance for the last two decades.

Sincerely,

Doug Ducate

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President and CEO
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Get Golf Back On The Agenda pg. 18

ConventionSouth

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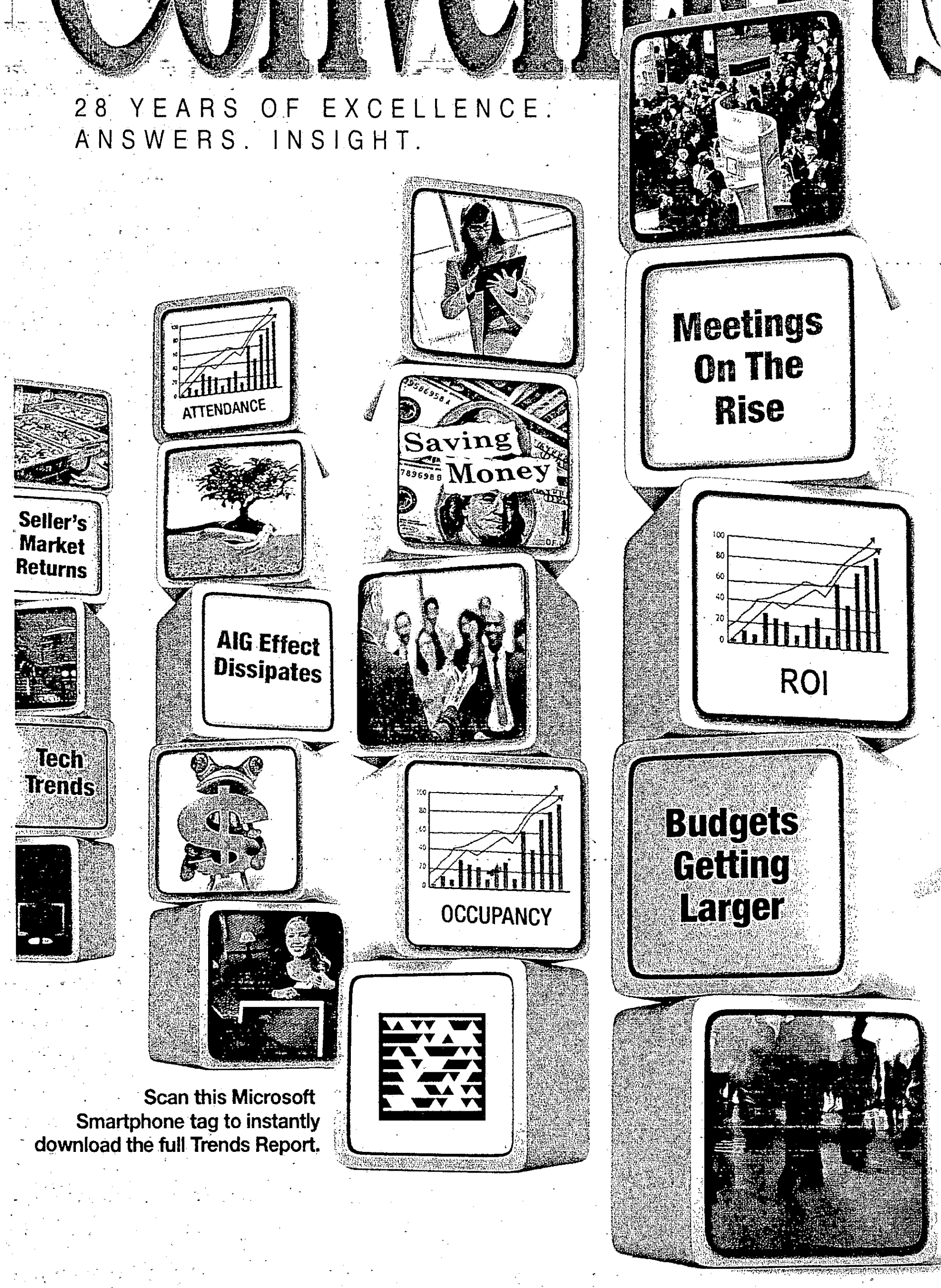

Scan this Microsoft Smartphone tag to instantly download the full Trends Report.

2012 Trends MORE Is The Word

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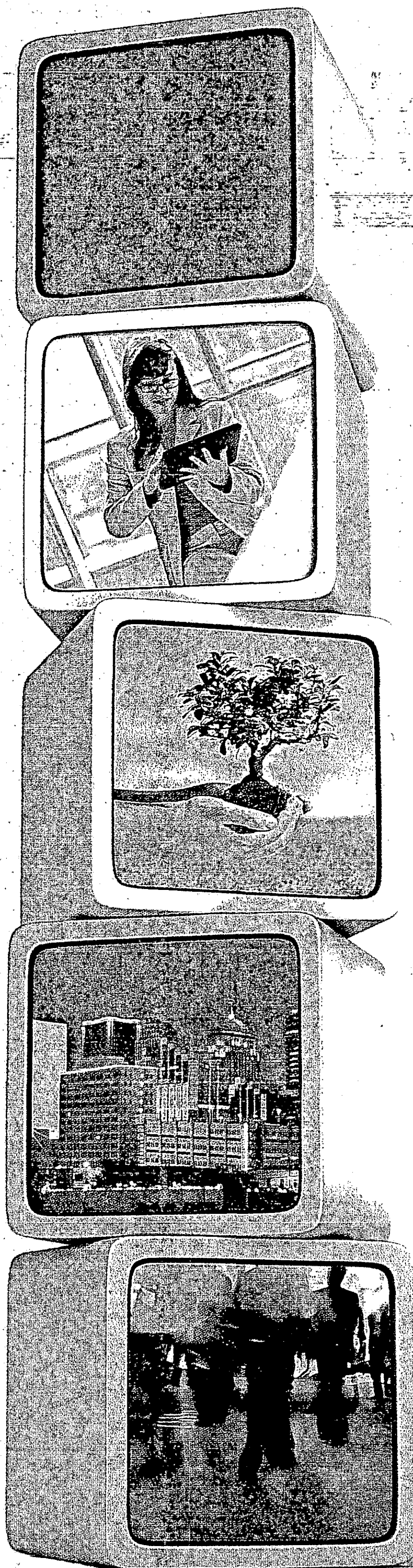


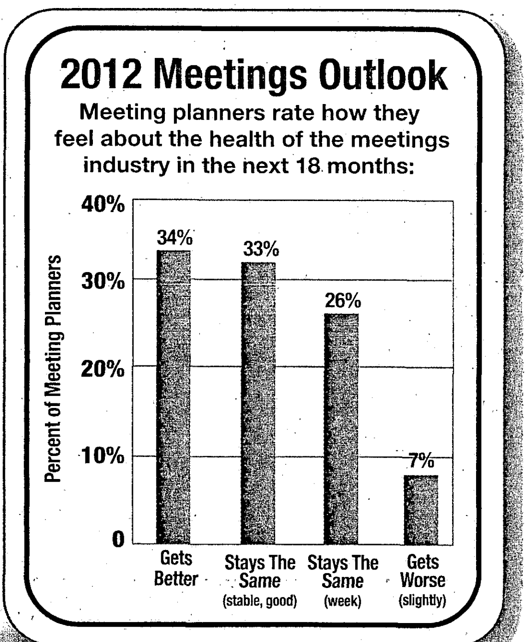
2012 Trends MORE Is The Word

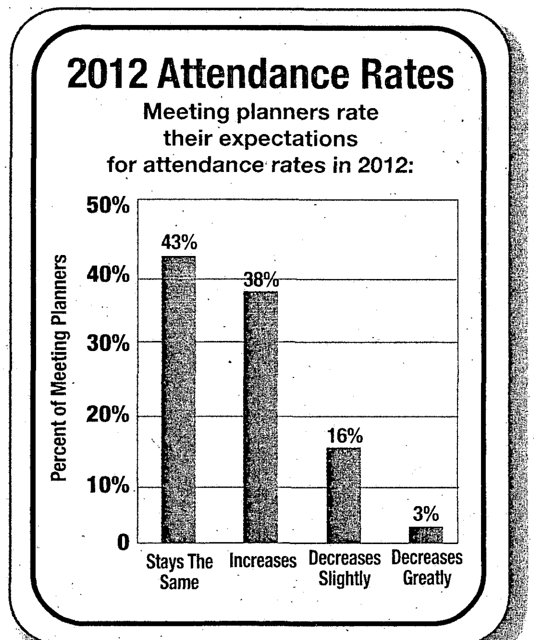
The word for 2012 is MORE! More meetings, more attendees, more business and more expenses—simply put, these are the trends noted from *ConventionSouth*'s 2012 Meeting Trends in the South report.

Gleamed from a survey of more than 100 meeting planners from across the country—all of whom book meetings in the South, the report revealed two key signs that the meetings industry is rebounding:

- Nearly 25% of meeting pros planned more meetings this year while 55% planned the same amount of meetings this year compared to last year.
- For 2012, 26% expect the number of meetings they plan to increase, while 62% expect they will plan the same amount of meetings.
- 33% expect the health of the meetings industry to stay about the same—in good, stable health—throughout the next 18 months, while 31% expect it to get slightly better.

Since many meeting planners typically plan the same amount of meetings year after year, no





:s have not made
tter the state of the economy, these figures are
nificant. And, they parallel with other stats
t show rising attendance. According to the re-
t, nearly 40% expect their attendance rates to
rease in 2012 while 43% expect attendance to
y the same.

The Trends Report was compiled in partner-
p with Atlanta's PKF-Hospitality Research.
bert Mandelbaum, director of research infor-
tion services for PKF-HR, analyzed the data
ng with other hospitality industry reports.
nce March 2010, group occupancy has
idily increased, but has yet to reach the pre-
ssion levels observed in 2007 and 2008,"
ndelbaum said.

While greater numbers of conventioneers
be seen roaming the lobbies, prefunction
e and banquet halls of U.S. hotels, operators
owners are telling us that they are still nego-
ng with meeting planners and concessions
being made to attract events to their hotels,"
aid. "And, it is interesting to note in *Conven-
South*'s Trends Report that 58% of the time,
ners are still encountering hotel operators
ng to concede room rates." However, he
d that while this is a significant number, it is
than the 71% occurrence rate reported in last
's Trends Report.

andelbaum also notes that another indicator
e increase in meetings activity is the reduc-
in number of times hotels have had to en-
the attrition and cancellation clauses in
meetings contracts.

owever, while meeting suppliers are still
ng to negotiate contracts, their rates are ris-
-swinging the market pendulum back in
of the seller. *ConventionSouth*'s trends re-
found that 44% of meeting planners expect
expenditure per meeting to increase over
ext year, while 44% expect it to stay about
me. According to Mandelbaum, the im-
ng balance between supply and demand
nable hotel operators to be more aggressive
ir pricing policies. Because of this, PKF
oped its 2011 annual ADR (average daily
growth forecast to 3.2% and placed the
ADR growth forecast at 4.8%. ■

AIG-Effect Dissipates

57%

of meeting pros have not made any recent changes in the types of destinations or properties they have selected for meetings due to negative ROI perceptions or the AIG-effect. However, 21% are booking more economical cities & 31% are booking more affordable hotels/venues.

Tradeshows Stabilize

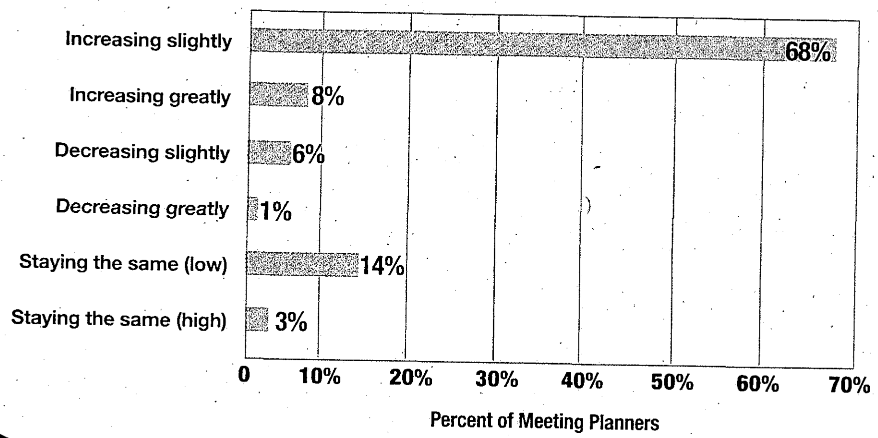
Most meeting pros expect the amount of tradeshows they plan in 2012 will either increase or stay the same.

17% Increase

80% Stay The Same

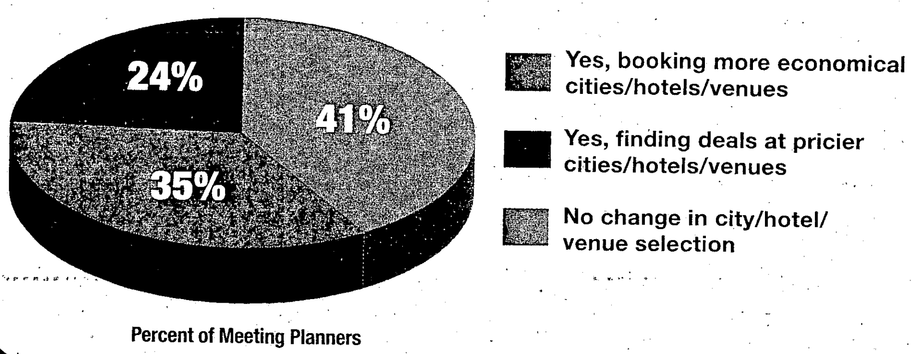
Hotel Rates Slowly Start To Climb

Meeting pros were asked:
How do you feel about the current state (2012) of hotel room rates?



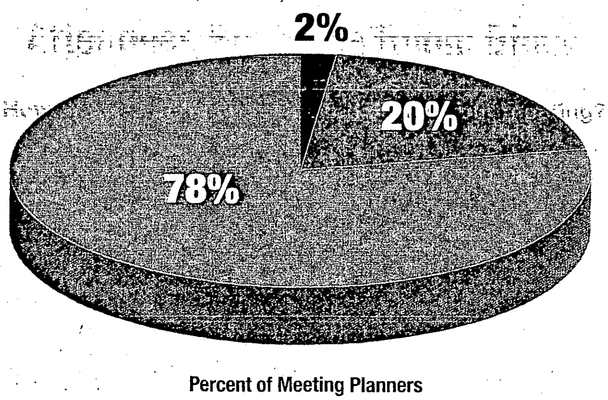
Economy's Impact On Site Selection Decisions

Meeting pros were asked:
Has the economy affected your selection of destinations or venues?



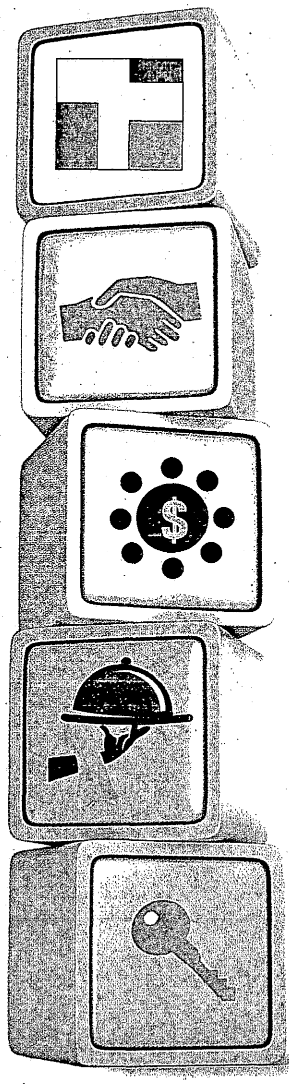
Attendees Book The Room Block

Meeting pros were asked:
How are your attendees housed during your meeting?



- Most attendees typically book the room block.
- Most attendees book the room block, but an increasing amount are booking outside the block.
- Most attendees typically book outside the room block.

Most Important Factors When Selecting A Meeting Site



1 Available Meeting Space

2 Willingness To Negotiate Contracts

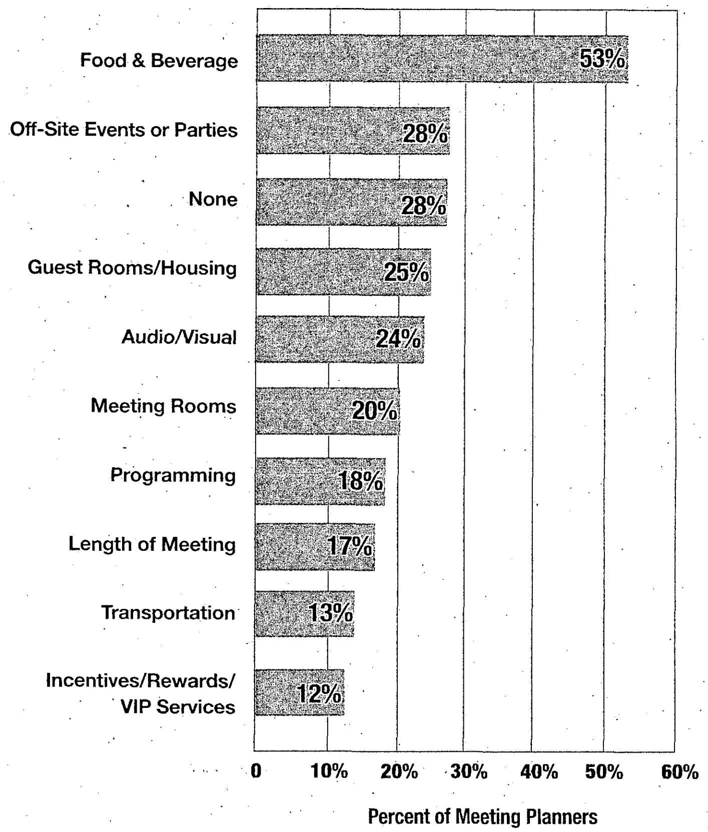
3 Price of Meeting Space/Service

4 Service Standards

5 Price of Hotel Guest Rooms

Where Meeting Planners Are Cutting Costs

Meeting planners say they are still working to limit their costs and are especially working to limit spending in these areas:



The Social Media Revolution Is Upon Us

Meeting pros were asked:
What Social Media tools do you use the most and for what reasons?

Other 7%

YouTube 3%

Twitter 8%

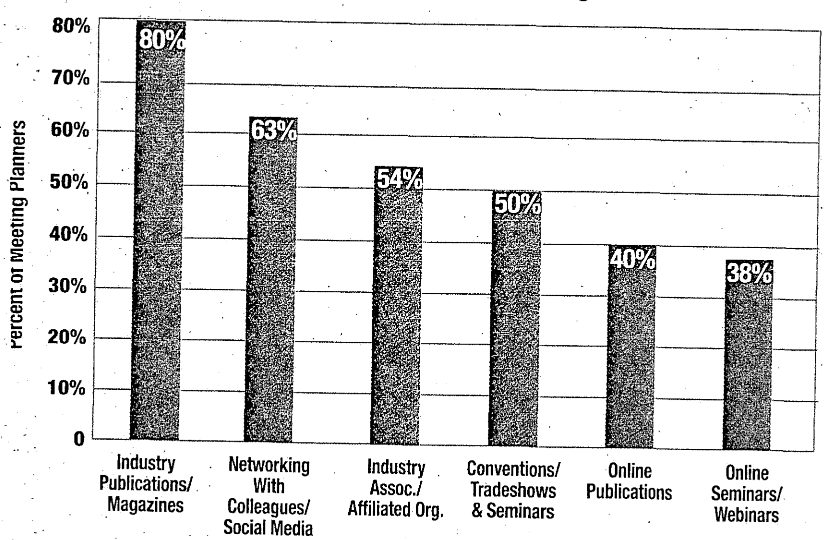
LinkedIn 28%

Facebook 53%

- 46% To Market Meetings
- 56% To Connect With Attendees
- 28% To Connect With Planners
- 39% To Connect With Suppliers
- 22% To Share Ideas
- 33% Not Using Social Media

Top Resources For Continuing Education

Meeting pros were asked:
Which sources do you most frequently rely upon for industry information/continuing education?



Meeting Pros ♥ Their Job

While job satisfaction remains high and nearly half of planners surveyed are receiving raises, job-related stress is high.

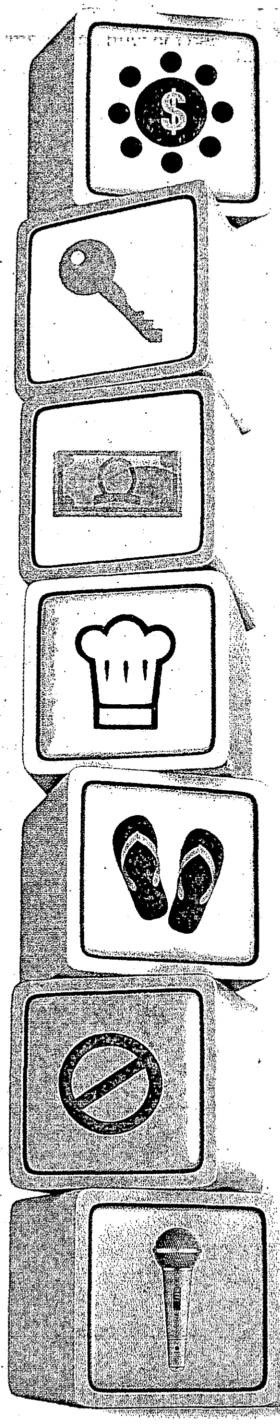
75%
said they have not considered a career change.

47%
said they have received a raise in the past 12 months.

55%
said their work-related stress level in 2011 compared to 2010 has increased.

Negotiating Concessions

Meeting pros were asked:
For which of the following items are hoteliers most willing to make concessions?



66% Meeting Space Rental Fee

58% Guest Room Rates

38% Attrition Penalty Fees

38% Food & Beverage Costs

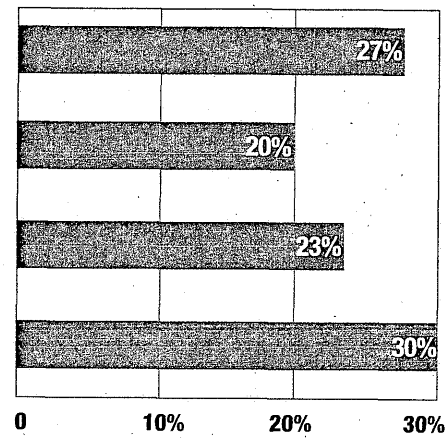
37% Resort or Amenity Fees

14% Cancellation Fees

12% Meeting Services

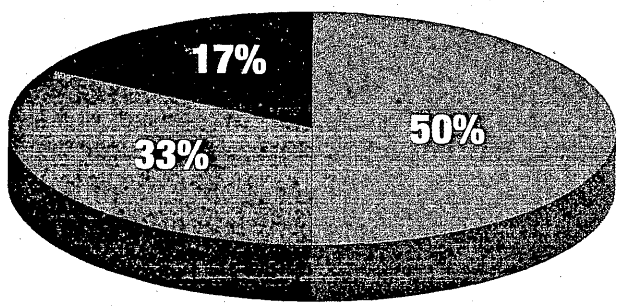
ROI Matters

Meeting Pros were asked:
In 2011, compared to previous years, how important is it for you to show ROI on your meetings?



Attendees Choose To Drive

Meeting pros were asked:
What method of transportation do your attendees typically use?



Percent of Meeting Planners

- Most drive to meetings
- Most fly to meetings
- A good mix of fly-in attendees and drive-in attendees

Who Took Our Survey?

The largest number of survey respondents—48%—are independent or in-house meeting planners, followed by association at 24%, corporate at 14% and government/nonprofit at 14%. 41% of respondents have earned a Certified Meeting Professional designation. And, the majority of respondents—48%—have more than 20 years of experience within the meetings industry.